Imperial Oil Limited 1957 ANNUAL REPORT

Officers and directors of Imperial Oil Limited — Meeting in the board room at 111 St. Clair Avenue West are, left to right: T. F. Moore, vice-president and director • J. W. Hamilton, director • J. R. White, president and director • C. E. Carson, director • J. A. Cogan, vice-president and director • C. D. Crichton, general secretary • J. K. Jamieson, vice-president and director • G. L. Macpherson, director • W. O. Twaits, executive vice-president and director • L. D. Fraser and W. D. C. Mackenzie, directors.

Cover — The Powerformer at Imperoyal refinery on Halifax Harbour was completed in 1957 and makes high octane components for motor fuels. In the background is "Imperial St. Lawrence".

Imperial Oil Limited

HEAD OFFICE: SARNIA, ONTARIO

EXECUTIVE OFFICES: TORONTO, ONTARIO

---

directors

C. E. CARSON   J. A. COGAN   L. D. FRASER   J. W. HAMILTON   J. K. JAMIESON
W. D. C. MACKENZIE   G. L. MACPHERSON   T. F. MOORE   W. O. TWAITS   J. R. WHITE

officers

J. R. WHITE, *President*   W. O. TWAITS, *Executive Vice-President*
Vice-Presidents: J. A. COGAN   J. K. JAMIESON   T. F. MOORE

COLIN D. CRICHTON, *General Secretary*   J. H. SPENCE, *Comptroller*   D. W. McGIBBON, *Treasurer*

J. F. BARRETT, Q.C., *General Counsel*

transfer offices

IMPERIAL OIL LIMITED, *TORONTO, ONTARIO*

MONTREAL TRUST COMPANY, *HALIFAX, NOVA SCOTIA*   *MONTREAL, QUEBEC*   *WINNIPEG, MANITOBA*
REGINA, SASKATCHEWAN   *CALGARY, ALBERTA*   *VANCOUVER, BRITISH COLUMBIA*

BANKERS TRUST COMPANY, *NEW YORK, N.Y.*

exploration and production

Western Regional Office:

CALGARY, ALBERTA

Division Offices:

EDMONTON, ALBERTA   REGINA, SASKATCHEWAN   LONDON, ONTARIO

manufacturing

Refineries:

IOCO, BRITISH COLUMBIA   CALGARY, ALBERTA   EDMONTON, ALBERTA
REGINA, SASKATCHEWAN   WINNIPEG, MANITOBA   SARNIA, ONTARIO   MONTREAL EAST, QUEBEC
HALIFAX, NOVA SCOTIA   NORMAN WELLS, NORTHWEST TERRITORIES

marketing

Divisional Marketing Head Offices:

VANCOUVER, BRITISH COLUMBIA   EDMONTON, ALBERTA   REGINA, SASKATCHEWAN
WINNIPEG, MANITOBA   LEASIDE, ONTARIO   MONTREAL, QUEBEC
HALIFAX, NOVA SCOTIA   ST. JOHN'S, NEWFOUNDLAND

MARKETING BRANCHES THROUGHOUT CANADA

ANNUAL REPORT FOR THE FISCAL YEAR ENDED DECEMBER 31, 1957

summary of operations and results

	1957	1956	1955
		MILLIONS	
GROSS INCOME from all sources....................	$885	$837	$700
NET EARNINGS after all charges and taxes...........	$ 72	$ 69	$ 62
as percentage of gross income.........	% 8.2	% 8.3	% 8.9
DIVIDENDS paid shareholders....................... (Per share: 1957, $1.20; 1956, $1.20; 1955, 95 cents)	$ 38	$ 36	$ 28
SHAREHOLDERS' INVESTMENT..................	$600	$565	$464
SALES OF PRODUCTS & PROCESSED CRUDE..Bbls. (Bbls. per day: 1957, 276,000; 1956, 275,000; 1955, 250,000)	101	101	91
CRUDE OIL PROCESSED AT REFINERIES.....Bbls. (Bbls. per day: 1957, 267,000; 1956, 275,000; 1955, 239,000)	97	101	87
CRUDE OIL PRODUCED — Gross.............Bbls. (Bbls. per day: 1957, 110,000; 1956, 119,000; 1955, 108,000)	40	44	39
—Net to Imperial.....Bbls.	35	38	34
TAXES charged against income...................... (Not including road taxes and other directly levied taxes of $104 millions of which Provincial road taxes ranged from 10 to 17 cents per gallon in 1957.)	$ 84	$ 82	$ 73
CAPITALIZED EXPENDITURES for replacement and expansion of plants and equipment, and Exploration Expenditures....................................	$144	$134	$109
PROVISIONS FOR DEPRECIATION of plants and equipment....................................	$ 40	$ 37	$ 34

annual report
to the shareholders

AFTER years of record growth, the Canadian economy entered a period of consolidation during 1957. Business activity levelled off and in the second half of the year industrial production declined. However, the economy continued at near-peak levels, and total employment throughout the year was higher than for any corresponding periods in Canada's history.

To some extent conditions in Canada reflected economic adjustment throughout the free world. Over-supply became general for all basic raw materials. The increasingly keen competition emphasized that Canada's main problem is one of high costs. As a trading nation with a heavy requirement for new capital, this country must be competitive to survive. An output per man second only to that of the United States cannot be sustained unless Canada is able to compete also in terms of output per dollar.

The premium on the Canadian dollar served to aggravate trading difficulties in the past year. However, the free market mechanism will help to bring about a more satisfactory relationship between the Canadian dollar and world currencies, and between domestic and foreign prices. Increasing industrialization in many countries will provide ready markets for many of the materials that Canada produces so well.

During most of 1957 the Canadian oil industry set new records in all phases of its operations. However, as business activity slackened towards the year-end and the weather was unseasonably warm throughout the country, the demands for petroleum products fell below those of the corresponding period of 1956. Product inventories tended to increase and refinery throughput was reduced accordingly.

In addition, crude oil production was affected by the loss of markets that were gained temporarily during the Suez crisis. Thus, production was sharply lower in the fourth quarter, although it averaged 6 per cent higher for the full year.

While crude oil demand declined, potential producing capacity continued to rise. At the year's end crude was being produced at only half of the maximum efficient potential.

The application of United States import quotas to Canadian oil introduced a new difficulty in the marketing of Canada's surplus crude. While the present quotas do not significantly limit Canadian outlets, they create another element of uncertainty about the growth of export markets. It is hoped that in administering the quotas, the United States will recognize the security advantages of Canadian pipe line crude oil supply.

There was surplus refining capacity in Canada and abroad in 1957, and demand fell short of product supply. The consequent high stock position exerted continuous pressure on product prices. In addition costs continued to rise and so the refiners' margins were reduced.

To a considerable degree higher refining costs are due to the improved qualities of motor fuels that are required for present-day cars. However, there have not been corresponding increases in the prices received by the refiners for the improved products. This fact has been obscured by increasing taxes and other charges that enter into the retail prices of gasolines. It is not generally realized that only about half the price that the motorist pays at the pump goes to the refiner who makes the gasoline.

Early in 1958 a Royal Commission on Canada's Energy Requirements met under the chairmanship of Mr. Henry Borden. This Commission is expected to make a comprehensive

examination of oil and gas reserves and markets in order to permit a better understanding of the problems by government and public alike.

Imperial's 1957 earnings amounted to $72,080,930. This was a 4 per cent increase over 1956 and reflected the high level of operations during the greater part of the year. Income for the fourth quarter was substantially lower than in 1956. An important factor in the Company's operations was a severe cutback of its crude oil production under Alberta Government regulations which prorate production to market demand. As explained on page 9, the reduced allowables affected Imperial more severely than most other producers. As a result, the Company's gross production for 1957 was 8.5 per cent less than in 1956.

Because it is greatly affected by changes in crude oil demand, Imperial is particularly concerned with finding additional outlets for Canadian crude. The present problem is exceedingly complex and there is no simple solution for it. Any steps that are taken must be carefully considered in the light of their long-term effect on the national interest.

The Company recorded twenty-four discoveries of crude oil and natural gas in western Canada during the year. Four of these were in association with other interests.

The daily throughput of Imperial refineries averaged 267,032 barrels which was 3.2 per cent less than in 1956. The principal influence in this connection was a strike at the Ioco refinery that began in late September and continued for nine weeks.

While total sales increased by only a fraction of a percentage point, there was a more substantial growth in demand for the Company's branded products, indicating recognition of the quality improvements that are continuously in progress.

As part of this quality improvement program, new ultra-modern units called "Powerformers" went into operation at the Sarnia, Montreal and Halifax refineries. Construction of similar facilities will be completed this year at Ioco and Winnipeg, and will begin at Calgary.

There were two major plant developments in the petrochemical field, both at Sarnia. The $5,500,000 detergent alkylate plant went into operation late in the year, and there was scheduled progress in another unit that will be completed this summer at a cost of $28,500,000 to make a variety of other petrochemicals.

The heavy capital demands for new plants and equipment and for carrying on the oil exploration program are indicated by expenditures which totalled $144,000,000 for the year. This compares with $134,000,000 in 1956.

The Company regards prevailing economic conditions as a pause for breath after a long upward climb. Great natural resources and high income levels, together with growing population and public policies that encourage enterprise, assure continued expansion of the Canadian economy. Imperial Oil, by reason of its sound financial position, modern plants and experienced personnel, is well equipped to make the best of present difficulties and to benefit fully when the economy resumes an upward trend.

The continued interest and support of the shareholders is again thankfully acknowledged. The Company now has nearly 45,000 shareholders of whom about 35,000 are resident in Canada and comprise one of the largest groups of the kind in the country.

The loyal and effective work of the Company's employees who number approximately 14,600 is again a subject for grateful comment.

Toronto, Ontario
March 21, 1958

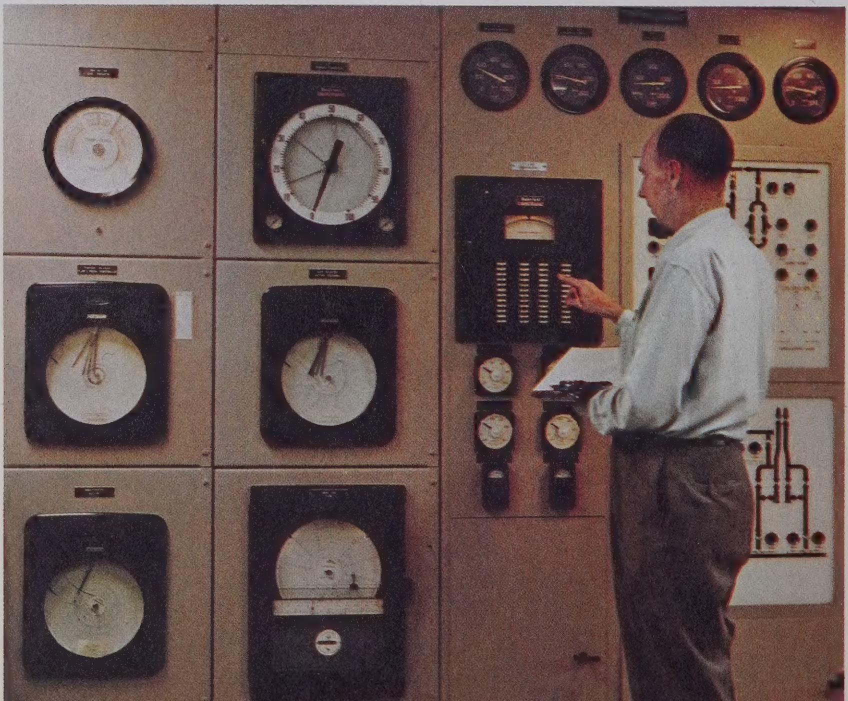
President.

Reviews of some of the Company's principal departmental activities begin on page 9. The financial review and the usual financial statements, together with the auditors' certificate, are presented on pages 18 to 27. A five-year summary of operating and financial results appears on page 28.

In the continuing search for oil, Imperial completed 91 exploratory wells in western Canada during 1957. Portable quarters housed the crews in remote areas.

"Imperial St. Lawrence", Canada's largest tanker, completed her maiden voyage in 1957. The 35,550 ton vessel is 690 feet long and has a capacity of 300,000 barrels.

Seismic crews continued to search for clues to oil deposits. Here a "shot" has been fired to set up shock waves that will reveal contours of underground formatio

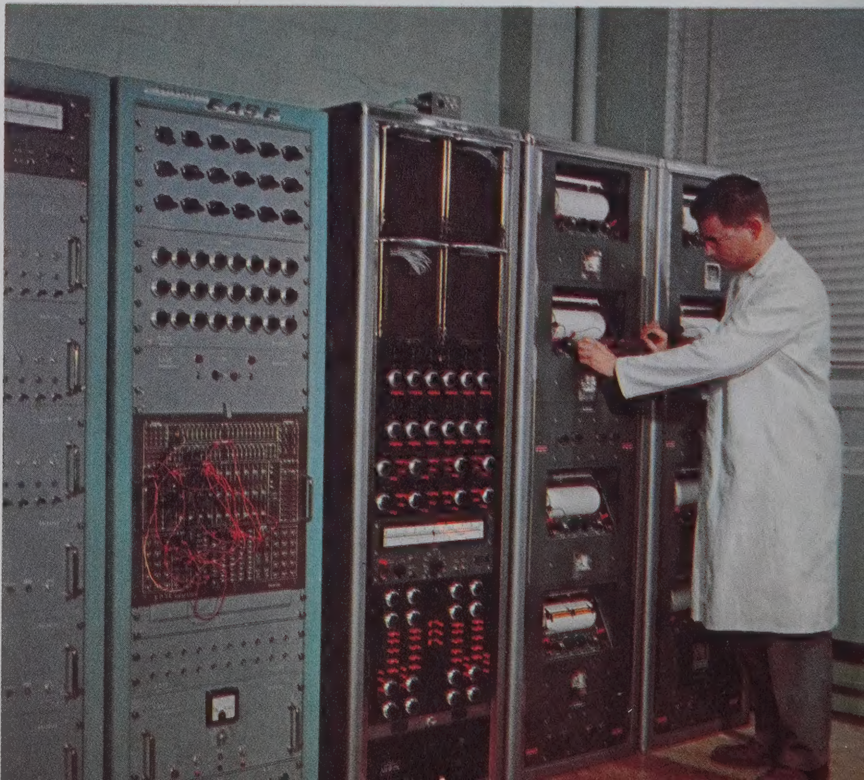


From this control panel in a pipe line pumping station, the operator directs and regulates the flow of petroleum products over hundreds of miles.

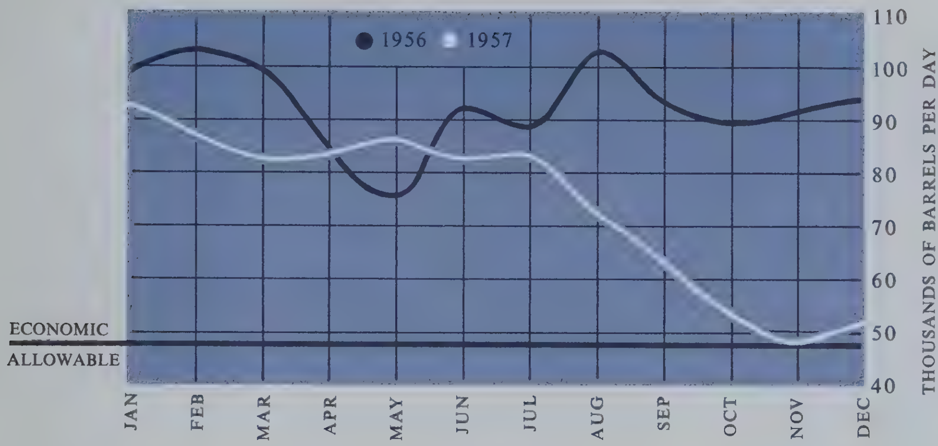
Keeping pace with developments in Canadian aviation, Imperial's airport facilities continue to expand.

Transporting men and equipment across rugged terrain in all seasons is a major problem. Imperial Oil has been developing tracked vehicles to extend the period of exploration in muskeg country.

There was continued enlargement and modernization of marketing facilities during the year. The company's bulk plants are strategically located for efficient distribution from coast to coast.



This analog computer, or reservoir analyser, helps to predict the behaviour of oil fields for years ahead. Known facts about a field are fed into the analyser in the company's producing research laboratory at Calgary, and the machine becomes an electronic counterpart of the field under study.



average daily production Leduc, Golden Spike, Redwater 1957 vs. 1956

production and exploration

The Company's gross crude oil production was 40,029,571 barrels, an average of 109,670 barrels per day. This was 8.5 per cent less than in 1956. Net production, after payment of royalties, averaged 95,410 barrels per day.

Under Alberta prorationing regulations every well has a minimum monthly producing allowance. After this has been provided for, the remaining demand is allocated in proportion to each well's ability to produce under sound conservation principles. When market demand is large in relation to producibility, wells with high potentials produce at correspondingly high rates; but when demand is low in relation to producibility, their output is more sharply curtailed. Consequently, the rate of production from oil fields with high producing potentials, such as Leduc, Golden Spike and Redwater in which Imperial has large interests, is very sensitive to fluctuations in demand such as occurred in 1957; and in the latter part of the year these were producing at low rates compared with their potentials.

This is illustrated by the above chart in which Imperial's daily production from Leduc, Golden Spike and Redwater in 1957 is contrasted with the 1956 production.

Total sales of natural gas from eastern and western operations were approximately 24 billion cubic feet, equivalent in heating value to 11,000 barrels of fuel oil per day. In addition over one million barrels of natural gas liquids were recovered by the Company's gas conservation plants in the Edmonton area.

During the year, 168 net development wells were drilled. Of these 137 were oil wells, four were gas wells and twenty-seven were dry holes. The principal areas for this development program were Joffre, Red Deer, Pembina, Keystone, Bentley and Big Lake in Alberta, and Weyburn, Kingsford, Hirsch and Florence in Saskatchewan. At year-end, the Company had 2,242 net oil wells and 143 net gas wells capable of production in 174 fields in western Canada and Ontario.

The Company continued its program to increase ultimate recovery of oil and gas from various pools in which it has an interest. In addition to projects begun in earlier years, the Company

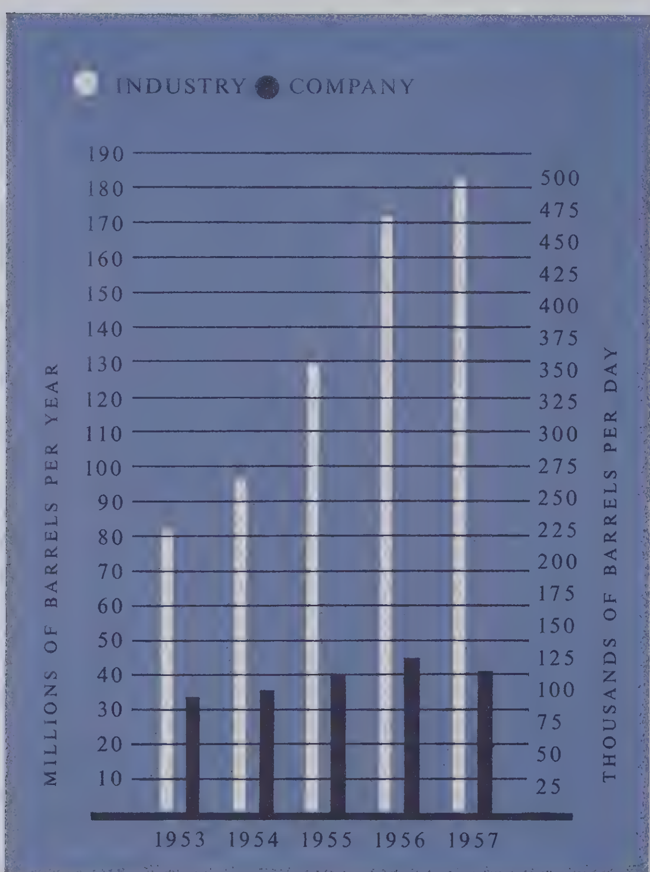
initiated water flood schemes in the Becher pool in southwestern Ontario and on its properties in the Joffre pool in Alberta. Together with other operators, it started a pilot water flood project in the Steelman pool in southeastern Saskatchewan, and began construction of a gas conservation plant in the Smiley field in west-central Saskatchewan.

Technical service and research facilities in Calgary again were expanded. This is an integral part of the continuing program to increase understanding of the formation and accumulation of petroleum, and to improve techniques for locating, developing and producing oil reserves. Some of the projects which showed considerable promise were the improvement of geophysical techniques, the development of more efficient vehicles for use in muskeg terrain, automatic operation of field batteries, and improved drilling techniques.

The Company continued its exploration programs in British Columbia, Alberta and Saskatchewan, as well as in Ontario, Quebec, Prince Edward Island and Cape Breton. It also acquired an interest in acreage in New Brunswick.

The Company's land holdings in reservations, permits, options and leases, totalled approximately 24.8 million gross acres at year-end as compared with 22.9 million acres in 1956.

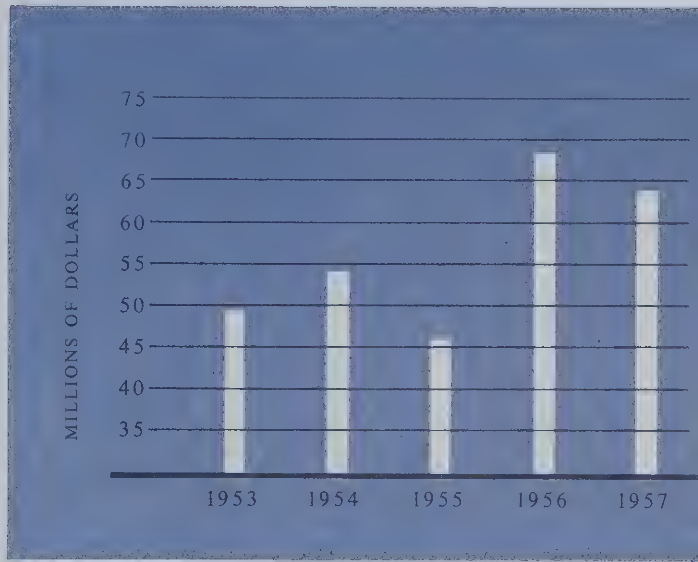
An extensive exploration program was carried on throughout Canada, but the exploratory drilling program in the West was somewhat smaller than in 1956 with ninety-one net well completions. In eastern Canada, the Company completed forty-four relatively shallow holes in Ontario and five wells in the St. Lawrence Lowlands of Quebec.



GROSS PRODUCTION INDICATED IN BOTH CASES

crude oil production

expenditures for exploration and development



In western Canada the Company made twenty discoveries of oil and gas and participated with other interests in four additional finds that are considered significant. One of the latter was at Boundary Lake in British Columbia where four follow-up oil wells and one gas well were completed. The other significant discoveries were at Browning, Arlington and Parkman in southeastern Saskatchewan. The Company expects to benefit also from discoveries made by other interests in proximity to some of its leases.

transportation

Transportation costs in 1957 amounted to about $98,000,000, of which 32 per cent was for shipments by pipe line, 30 per cent for marine movement, and 38 per cent for railway transportation.

PIPE LINES

Shipments through Company-owned pipe lines were affected by changes in the pattern of crude oil and refined oil supply, as indicated by the following table of average throughput:

	1957	1956	Per cent
	Barrels per day		Change
Imperial Pipe Line.................... (gathering system)	120,000	147,700	(18.8)
Winnipeg Pipe Line.................... (crude trunk line)	24,700	24,600	0.3
Sarnia Products Pipe Line.............. (products trunk line)	42,300	45,100	(6.1)

The construction of a remotely-controlled booster station on the Winnipeg Pipe Line, which increased the line's capacity to 39,000 barrels daily, was the only major capital project on Company-owned pipe lines.

The pipe line systems in which the Company has investment interests reported increased average volumes as follows:

	1957	1956	Imperial's Per cent Interest
	Barrels per day		
Portland/Montreal pipe line system....... (crude trunk line)	223,100	209,700	36.0
Interprovincial/Lakehead pipe line system. (crude trunk line)	273,700	264,300	33.2
Trans Mountain Oil Pipe Line.......... (crude trunk line)	154,900	129,100	8.6
Peace River Oil Pipe Line............... (crude trunk line and gathering system)	8,800	4,500	10.8
Producers/Westspur pipe line system....... (crude trunk line and gathering system)	54,300	11,300	8.5

Additional pumping equipment was installed on the Portland/Montreal system to meet peak requirements.

The Interprovincial/Lakehead system was extended 156 miles from Sarnia to the Toronto area. In addition, 111 miles of line were looped in Saskatchewan and Minnesota, and a remotely-controlled pump station was installed in Michigan to balance delivery requirements along the line.

The capacity of Trans Mountain Oil Pipe Line was increased from 200,000 to 250,000 barrels daily by construction of 102 miles of loop and the addition of one permanent and two temporary pump stations.

Because of problems arising from overlapping federal and provincial jurisdiction in regard to pipe lines, Producers Pipelines Ltd. was formed by producers in southeastern Saskatchewan to acquire the assets of the Westspur Pipe Line Company, and to construct and operate those sections of the system within the Province of Saskatchewan. The gathering facilities of the combined system were nearly doubled by the addition of 143 miles of line. In addition, 75 miles of the trunk line were looped, raising capacity to 89,000 barrels daily.

MARINE

The Company's fleet of ocean tankers was increased to three ships, totalling 68,515 DWT, when the "Imperial St. Lawrence" was placed in service early in the year. These ships, together with chartered vessels, moved 49,000,000 barrels of oil during the year.

The thirteen lake and coastal vessels which the Company owns carried 62 per cent of the 30,100,000 barrels moved for the Company in this service. One 40-year-old lake tanker was replaced late in the year by the "Imperial Quebec", a new 6,150 DWT ship. This ship raises the capacity of the lake and coastal fleet to 42,442 DWT.

RAIL TRANSPORT

Over 34,000,000 barrels of crude oil and products were moved by tank car during the year, entailing 166,819 carload shipments and involving a peak number of 6,715 cars. There was a 4 per cent general increase in freight rates on January 1, 1957, and additional increases were pending at year-end. Rates on shipments from United States points were also increased during the year.

Fourteen additional tank cars were shipped to Seven Islands, Quebec, bringing to twenty-six the number of cars in this isolated service. Ten more narrow-gauge cars were placed in service in Newfoundland, raising the total there to 101.

manufacturing

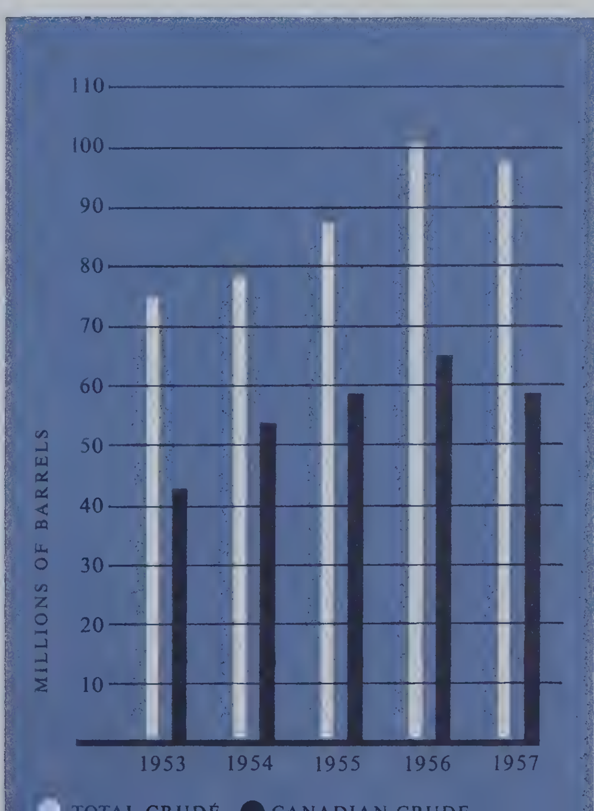
Total crude processed in 1957 was 97,466,913 barrels, equivalent to 267,032 barrels daily. This was 3.2 per cent less than in 1956 and was the first interruption of a growth trend that began in 1945. The reductions in crude runnings were due principally to a strike at the Ioco refinery from September 24 to November 27.

Of the crude processed 160,331 barrels daily, or 60 per cent, was from Canadian sources.

The Company continued to modernize its plants and add quality improvement facilities. Powerformers to produce more high octane motor fuels were commissioned at Sarnia, Montreal and Halifax, and construction of Powerformers at Ioco and Winnipeg will be completed this year.

Plans were developed to modernize and expand Calgary refinery at a cost of approximately $17,000,000, and for a $3,000,000 program to increase capacity at Ioco. Expansion of the Winnipeg refinery's capacity is expected to be completed early this year.

The wax recrystallization plant at Sarnia was completed in the summer at a cost of $4,500,000. It provides a full line of products, including special waxes which were not previously made in Canada.



refinery throughput

petrochemicals

The Company's first major petrochemical plant went into operation at Sarnia in the latter part of the year. It was built at a cost of $5,500,000 and its prime product is high quality detergent alkylate, a material used by soap and chemical companies in the manufacture of household and industrial chemicals. The plant capacity is 30 million pounds per year, enough to make Canada self-sufficient in detergent alkylates. Other manufacturing facilities associated with this new plant will produce such materials as light and heavy phenylalkanes, tripropylene and tetrapropylene. These will be available to the Canadian chemical industry for processing into various industrial chemicals.

Construction of a $28,500,000 petrochemical plant, also at Sarnia, progressed on schedule. It is expected that the plant will be completed and ready for operation by mid-year. Its principal products will be ethylene, propylene, butylenes, butadiene, aromatic distillates and tars. Large quantities of most of these materials are required by chemical and allied industries in and near the Sarnia area for processing into plastics, antifreeze, synthetic fibres, synthetic rubber and gasoline additives.

Continued progress was made in the planning and development of other projects. In most cases these involve the separation and purification of petrochemicals from refinery streams. These projects will further expand the range of the Company's activities in supplying basic materials for the Canadian chemical industry.

marketing

The slowing down of business activity in the latter part of the year was reflected in the demand for petroleum products, and competition was keen in all classes of trade and in all operating areas. Intensity of competition has resulted in an increasing number of claims for quality and performance which, in some instances, seem confusing to the public. The Company's program is one of continuous quality improvement and is expressed by its sales slogan "Always look to Imperial for the best".

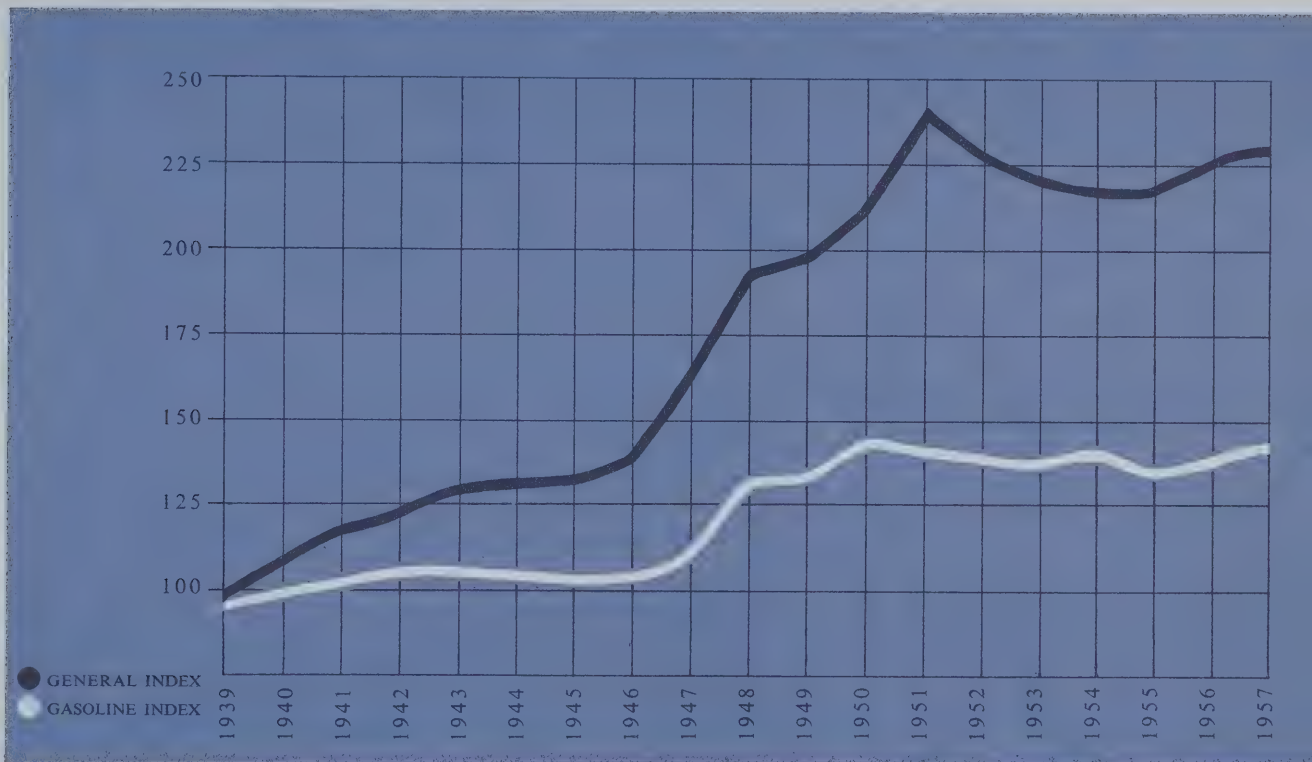
There was an increase in the volume of branded products sold at service stations and despite warmer weather the Company's direct sales of domestic fuel oils were slightly more than in the previous year. Sales of industrial and marine fuel oils were lower than in 1956 and largely offset the other gains recorded.

The marketing department continued to develop new facilities in areas of expanding population. Capital investment was increased with a view not only to improving and extending marketing facilities but also to reducing costs of distribution and other operations. Large bulk and warehouse terminals were completed in Toronto and Winnipeg and 134 service stations were opened throughout the country. There was expansion of airport fueling facilities, notably at Frobisher Bay on Baffin Island where a marketing terminal was built to service commercial trans-polar flights. A new division office building was completed at Edmonton and one is nearing completion at St. John's in Newfoundland.

gasoline wholesale price index

EXCLUDING FEDERAL AND PROVINCIAL GASOLINE TAXES

vs. general wholesale price index



BASE: 1935-1939 = 100. SOURCE: DOMINION BUREAU OF STATISTICS

research

There was greatly expanded effort in chemical and fuel products research and the staff of the research department at Sarnia was enlarged accordingly.

Some noteworthy additions were made also to the research facilities. A new pilot Powerforming unit was completed and will provide data for the design of new Powerformers and for the most efficient operation of existing units. New analytical tools such as x-ray diffraction equipment and a mass spectrograph are proving valuable aids in the Company's research activities.

In a continuing program to improve fuels and lubricants for today's and tomorrow's cars, Imperial again carried out extensive automobile fleet tests. Laboratory engine testing was continued on an enlarged scale.

The research department took an active part in bringing the new detergent alkylate and wax recrystallization plants on stream. The wax recrystallization plant is of a new design developed by the Company. It will produce a full range of petroleum waxes by techniques evolved in the Company's laboratories.

A new dewaxing solvent, developed by the research department and put into use during 1957, will result in improved plant performance and substantially lower costs for solvent.

There were increasing demands for multipurpose greases which have been developed by the research department for a wide range of automotive and industrial uses.

Also in the field of research, the Company completed plans to install a large high-speed electronic computer. This will come into operation in 1959 in a new computing centre at the executive offices. While electronic computers are in use in various company offices, the decision to employ also central computing facilities has required several years of research and employee training to ensure optimum use of these new techniques and their application to the Company's operations.

Operations of the Company's production research laboratory at Calgary are referred to in the section dealing with production and exploration.

employee relations

Continued emphasis on the training and development of employees at all levels was highlighted by improved programs for supervisory, operating, accounting and executive office personnel. An extensive training program to improve skills required by technological advances was inaugurated at Sarnia and Montreal refineries. Courses to develop more and better instructors were embarked upon as another means of raising the quality of all training. An educational refund plan was introduced to encourage employees to take courses relating to their work.

Wages and salaries were adjusted by an average of 15 cents per hour in March through agreement with employee representatives, and in line with increases granted by industry generally. The service requirement for four weeks' vacation was reduced from twenty-five to twenty years. The Joint Council system, through which employees in most operations of the Company are represented, continued to demonstrate its effectiveness. In the fall a nine-week work stoppage occurred at the Ioco refinery where hourly-paid employees are represented by the Oil, Chemical and Atomic Workers International Union. The strike developed after fourteen months of negotiations and was the first in forty years in an Imperial operation. It was settled essentially on the basis of an offer made by the Company prior to the strike.

The Accident Prevention program received new emphasis by managements with a view to encouraging greater employee interest. As a result, there has been a significant reduction in the number of personal injuries and motor vehicle accidents during working hours. However, off-the-job accidents, particularly those involving motor vehicles, continue to take their toll.

Increased interest in the Coin Your Ideas Plan produced many more useful ideas and resulted in 1,447 cash awards. The largest single award was $1,800.

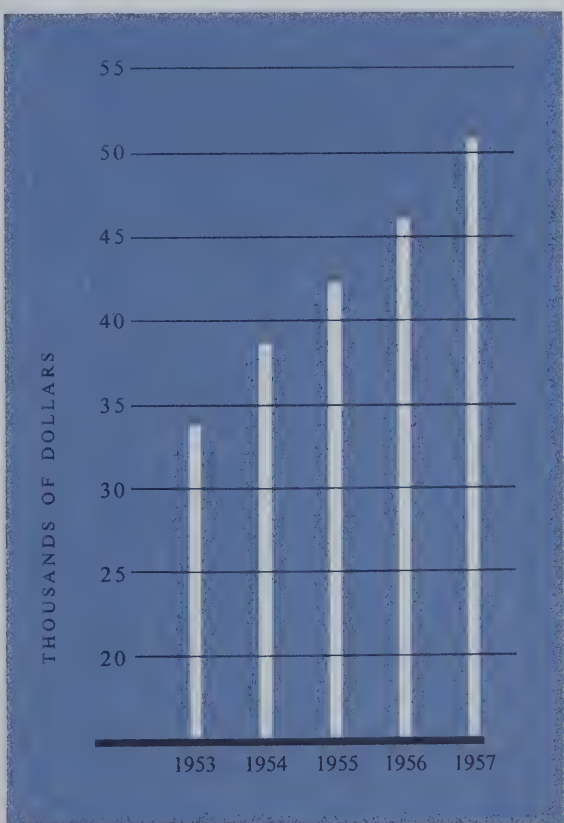
The Company continued to stress the importance of communications with employees. As part of this program a variety of publications was produced to keep employees informed on departmental and local matters and to foster closer relationships.

The Company's Annuity Plan was revised effective January 1, 1958, to provide pension income more closely related to employees' average earnings in final years of service. The improvement in pensions is integrated with the Government Old Age Security program.

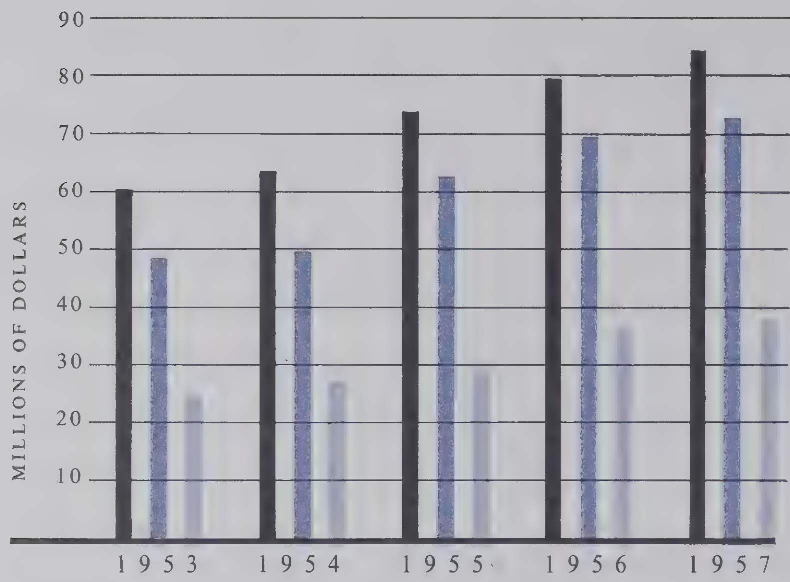
The Company again made an additional contribution to the Employees Thrift Plan. It amounted to 40 per cent of employee contributions to the Plan during the twelve months ended September 30, 1957.

executive changes

In December, Mr. J. A. Cogan, who became a director of the Company early in 1956, was appointed to the office of vice-president. Mr. Cogan has been concerned with research and the long-term planning of the Company's supply operations.



investment in plant and equipment per employee



earnings, dividends and taxes

TAXES INCLUDE INCOME, PROPERTY & SALES TAXES BUT DO NOT INCLUDE PROVINCIAL ROAD TAXES

financial review

The results for 1957 are expressed in the Financial Statements appearing on pages 22 to 27 including the Auditors' Report to the Shareholders and explanatory notes on some features. The statements represent a consolidation of the accounts of Imperial Oil Limited and its subsidiary companies, all of which are wholly owned, and therefore show results on a total or consolidated basis.

EARNINGS for the year have been determined at $72,080,930 equal to $2.29 per share of capital stock outstanding. This amount compares with 1956 earnings of $69,098,692 equal to $2.20 per share of capital stock outstanding.

DIVIDENDS to shareholders paid in 1957 totalled $37,727,662 being at the rate of $1.20 per share, the same rate as paid in 1956.

INVENTORY VALUES used for balance sheet purposes are on the basis of costs calculated on the first-in first-out method. Estimated unrealized profits between the company and its subsidiaries are eliminated for the purpose of determining asset value and earnings for the year. The inventory values at December 31, 1957 are materially lower than the market values on that date.

FOREIGN CURRENCY TRANSACTIONS, chiefly United States dollars, have been converted to their Canadian dollar equivalents at the rates of exchange prevailing on the transaction dates.

SALES of products were slightly higher than for the previous year, but net crude oil production was lower by 7.6 per cent largely because Imperial's share of the available crude

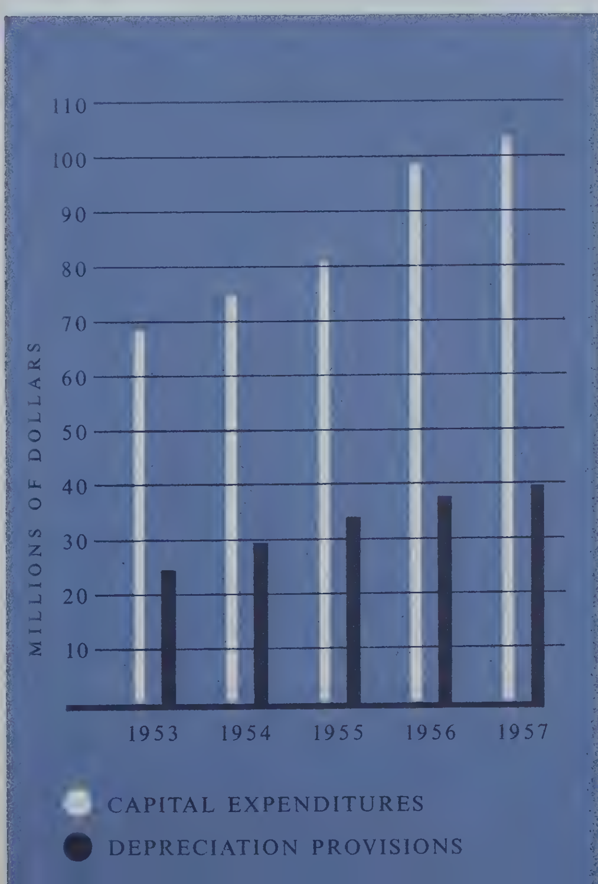
oil market was more severely affected by prorationing than that of many other producers. Crude oil processed at refineries was lower by 3.2 per cent due principally to the strike at Ioco refinery.

INCOME, EXPENSES AND TAXES are shown in the following table. The increase in operating costs and taxes slightly exceeded the increase in income from operations.

	1957	1956	Per cent Increase
Income from operations	$872,986,952	$830,158,478	5.2
Other income	11,582,524	7,214,712	60.5
	884,569,476	837,373,190	5.6
Expenses, including depreciation	760,122,111	718,493,721	5.8
Estimated income taxes	52,366,435	49,780,777	5.2
Earnings after income taxes	$ 72,080,930	$ 69,098,692	4.3

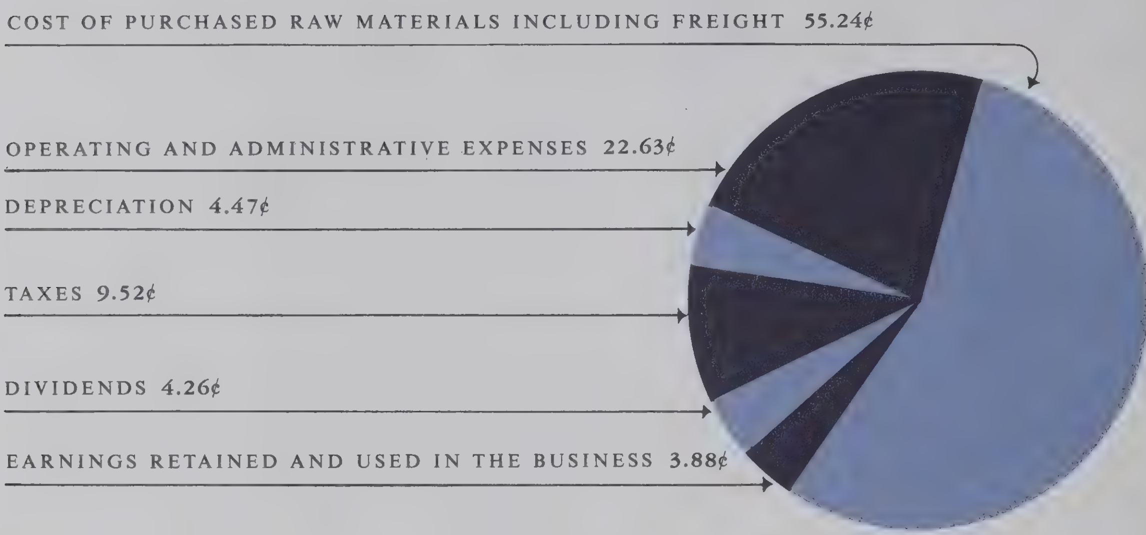
TAXES, including Federal sales taxes, municipal taxes and income taxes charged against 1957 income totalled $84,172,393 equivalent to $2.68 per share of capital stock outstanding. In addition to those taxes provided for and charged against its income, the Company collected and remitted to Provincial and Municipal Governments a total of $104,227,247 for road and other direct taxes levied by them, the former at rates ranging from 10 to 17 cents per gallon.

DEPRECIATION AND AMORTIZATION provided for and charged against 1957 income totalled $39,542,515. Additional depreciation to be taken as capital cost allowance when 1957 Federal Income Tax returns are filed is not included in this figure. Tax regulations require that in calculating taxable income the cost of drilling successful oil and gas wells be included when incurred. This practice is followed, but these costs are capitalized and charged against income when production is taken from the wells.



capital expenditures and provisions for depreciation and amortization

disposition of each dollar of income



NET WORKING FUNDS declined by $22,605,074 to $231,885,515 due largely to the heavy capital expenditures for new plants and equipment which are detailed below. A Funds comparison with December 31, 1956, is as follows:

	1957	1956
Current funds and inventories	$322,675,278	$365,673,893
Current debts	90,789,763	111,183,304
Net working funds	$231,885,515	$254,490,589
Ratio, current funds to debts	3.6	3.3

CAPITAL EXPENDITURES for properties, plant expansions and equipment continued at a high level and totalled $103,063,485 in 1957, as follows:

	1957	1956
Crude oil producing, excluding exploration	$ 22,579,545	$ 31,979,595
Refining	46,156,192	34,177,843
Marketing	28,578,017	19,871,230
Transportation	3,363,477	5,066,763
Other	2,386,254	6,855,325
	$103,063,485	$ 97,950,756

INVESTMENT IN OTHER COMPANIES with quoted market value, is shown at cost of $16,012,150. Market quotations at the end of the year place a current value on these investments much in excess of cost. They represent important but minority interests in pipe line companies and are viewed by the Company as long-term investments to be carried at cost in conformity with accepted practices.

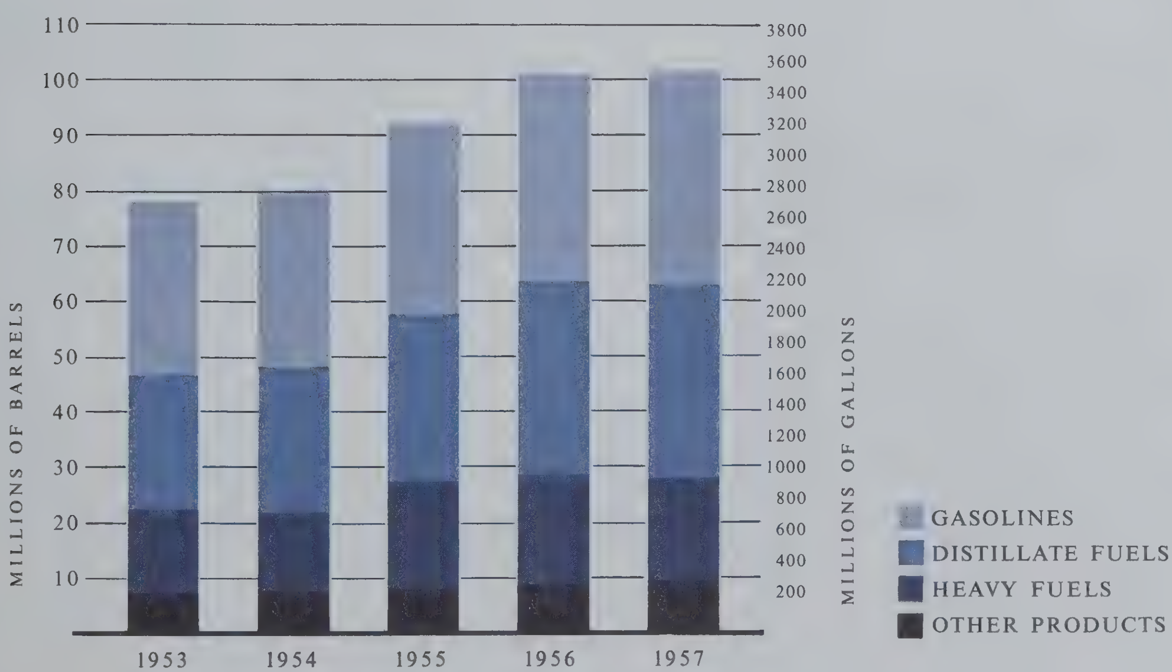
LONG-TERM DEBTS at $90,775,509 are down $3,394,879 reflecting the year's current maturities only, as no new borrowing was made in 1957. The relationship of debt to shareholders' equity now stands at 15.1 per cent.

SHAREHOLDERS' INVESTMENT rose to $599,602,098 up $34,798,272, which is the balance of current year's earnings after payment of dividends. These retained funds have been invested in new Company plants and other assets. Net book value is now $19.07 per share of stock outstanding as compared to $17.97 at the end of 1956.

SOURCE AND USE OF FUNDS

	1957	1956
SOURCE OF FUNDS:		
Sales of crude oil, products and services	$872,986,952	$830,158,478
Income from investments and other sources	11,582,524	7,214,712
Capital stock issued	445,004	68,259,575
	$885,014,480	$905,632,765
USE OF FUNDS:		
Purchased crude oil, goods, services and other	$685,858,341	$646,885,357
Expenditures for new plant and equipment	103,063,485	97,950,756
Paid on account of income taxes	42,554,873	39,969,946
Paid for all other taxes	31,805,958	32,377,257
Interest and discount on and repayment of long-term debt	6,609,235	5,681,753
Dividends to shareholders	37,727,662	35,889,525
	$907,619,554	$858,754,594
Addition (Reduction) to current working funds	$(22,605,074)	$ 46,878,171

sales of petroleum products and processed crude



IMPERIAL OIL LIMITED A

CONSOLIDAT

ASSETS

	AS AT DECEMBER 31 1957	1956
CURRENT FUNDS AND INVENTORIES:		
Cash	$ 14,278,549	$ 13,106,026
Government securities, at the lower of cost or market	14,399,080	64,830,238
Other marketable securities, at cost which is approximately market	22,634,908	28,285,799
Trade accounts receivable, less provision for doubtful accounts	96,576,099	95,284,154
Other accounts receivable	4,268,012	7,616,692
Prepaid taxes, insurance and rentals	2,821,040	2,763,734
Inventories, on basis of cost which was less than market		
Crude oil and refined products	138,132,368	130,979,055
Other merchandise	7,833,640	6,331,939
Materials and supplies	21,731,582	16,476,256
	322,675,278	365,673,893
DEFERRED FUNDS:		
Mortgages and other deferred accounts receivable, less provision for doubtful accounts	15,578,439	10,934,480
INVESTMENT IN OTHER COMPANIES:		
Bonds and shares — with quoted market value 1957 — $69,208,160 1956 — $97,190,000	16,012,150	15,933,750
— without quoted market value, less reserve	2,439,935	2,444,489
FUNDS DEPOSITED WITH GOVERNMENTS AND OTHERS:		
Government securities, at the lower of cost or market	1,025,831	3,657,811
Cash	343,259	223,726
INVESTMENT IN PLANT AND EQUIPMENT:		
Land, leases, wells, buildings, plant, transportation and other equipment, at cost	762,311,619	672,463,670
Less — accumulated depreciation and amortization	273,320,724	242,938,267
	488,990,895	429,525,403
DEFERRED CHARGES:		
Unamortized debt discount and expense	899,714	948,948
Other deferred charges and credits (net)	939,894	13,123
	$848,905,395	$829,355,623

Approved on behalf of the Board:

J. R. White
M. D. Mraik

UBSIDIARY COMPANIES

ALANCE SHEET

LIABILITIES

	AS AT DECEMBER 31 1957	1956
CURRENT DEBTS:		
Accounts payable	$ 58,390,198	$ 69,272,843
Long-term debts due within one year	3,420,562	2,397,944
Income and other taxes payable	22,544,451	32,223,361
Other accrued liabilities	6,434,552	7,289,156
	90,789,763	111,183,304
LONG-TERM DEBTS (exclusive of amounts due within one year):		
Imperial Oil Limited —		
2½% Serial Debentures, 1949 Issue, maturing on December 15, 1959	1,500,000	3,000,000
3% Sinking Fund Debentures, 1949 Issue, maturing December 15, 1969	40,000,000	40,000,000
Sinking Fund requirements:		
$2,000,000 — in each of the years 1960 to 1964 inclusive		
$2,500,000 — in each of the years 1965 to 1968 inclusive		
3⅝% Serial Debentures, 1955 Issue, maturing $1,000,000 February 1 in each of the years 1959 to 1961 inclusive, and $1,500,000 February 1 in each of the years 1962 to 1965 inclusive	9,000,000	10,000,000
3⅞% Sinking Fund Debentures, 1955 Issue, maturing February 1, 1975	40,000,000	40,000,000
Sinking Fund requirements:		
$2,000,000 — in each of the years 1966 to 1970 inclusive		
$2,500,000 — in each of the years 1971 to 1974 inclusive		
Imperial Oil Shipping Company Limited —		
3% Serial Notes maturing May 1, 1959	275,509	1,170,388
	90,775,509	94,170,388
OTHER DEFERRED DEBTS:		
For employees' annuities	18,001,251	19,283,737
POTENTIAL DEBT OR LOSS PROVISIONS:		
Accumulated income tax reductions applicable to future years	36,818,685	27,007,123
Fire, marine and other insurance	9,962,436	9,962,436
Contingencies	2,955,653	2,944,809
	249,303,297	264,551,797

SHAREHOLDERS' INVESTMENT

	1957	1956
CAPITAL STOCK:		
Authorized — 40,000,000 shares of no par value		
Issued 1957 — 31,442,652 shares 1956 — 31,429,887 shares	230,039,473	229,594,469
CAPITAL SURPLUS RETAINED AND USED IN THE BUSINESS	67,222,821	67,222,821
EARNINGS RETAINED AND USED IN THE BUSINESS:—as per page 24	302,339,804	267,986,536
	599,602,098	564,803,826
	$848,905,395	$829,355,623

The Notes to the Financial Statements on pages 26 and 27 are an integral part of this statement.

IMPERIAL OIL LIMITED AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF EARNINGS

	FOR THE YEARS ENDED DECEMBER 31	
	1957	1956
INCOME:		
From operations	$872,986,952	$830,158,478
From investment and other sources	11,582,524	7,214,712
	884,569,476	837,373,190
EXPENSES:		
Cost of crude oil, petroleum products and other merchandise purchased, including freight	488,573,726	466,367,137
Exploration, operating and administrative expenses	195,607,467	177,989,961
Taxes, other than income taxes	31,805,958	32,377,257
Depreciation and amortization	39,542,515	37,485,494
Interest and discount on long-term debts	3,214,356	3,283,809
Other interest charges	1,378,089	990,063
	760,122,111	718,493,721
EARNINGS before income taxes	124,447,365	118,879,469
Provision for estimated income taxes thereon	52,366,435	49,780,777
EARNINGS after income taxes	$ 72,080,930	$ 69,098,692
Per share	$2.29	$2.20

CONSOLIDATED STATEMENT OF EARNINGS RETAINED AND USED IN THE BUSINESS

FOR THE YEAR ENDED DECEMBER 31, 1957

Balance at January 1	$267,986,536
Add: Earnings after income taxes — $2.29 per share	72,080,930
	340,067,466
Deduct: Dividends paid — $1.20 per share	37,727,662
Balance at December 31	$302,339,804

The Notes to the Financial Statements on pages 26 and 27 are an integral part of these statements.

AUDITORS' REPORT TO THE SHAREHOLDERS

To the Shareholders of

IMPERIAL OIL LIMITED:

We have examined the Consolidated Balance Sheet of Imperial Oil Limited and its subsidiary companies as at December 31, 1957 and the Consolidated Statements of Earnings and Earnings Retained and Used in the Business for the year ended on that date, and have obtained all the information and explanations we have required. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, and according to the best of our information and the explanations given to us and as shown by the books of the companies, the accompanying Consolidated Balance Sheet and related Consolidated Statements of Earnings and Earnings Retained and Used in the Business are properly drawn up so as to exhibit a true and correct view of the state of the affairs of the companies as at December 31, 1957 and the results of their operations for the year ended on that date, in conformity with generally accepted accounting principles applied on a basis consistent in all material respects with that of the preceding year.

Price Waterhouse & Co.

Chartered Accountants

TORONTO, March 12, 1958.

CONTINGENCIES AND COMMITMENTS

The Company has entered into throughput and other agreements with Interprovincial Pipe Line Company, and, along with certain other oil companies, has entered into somewhat similar agreements with Trans Mountain Oil Pipe Line Company and the Portland/Montreal pipe line companies. Under these agreements the Company has various obligations with respect to minimum shipments of crude oil and, alone or in conjunction with other oil companies, is obligated to provide necessary funds if the pipe line companies are unable to meet principal and interest payments on certain outstanding funded indebtedness. The portion of such outstanding funded indebtedness for which the Company is severally obligated under these agreements aggregated Canadian $49,119,079 and U.S. $55,915,090 at December 31, 1957. The pipe line companies are meeting their obligations as they fall due and present indications are that they will continue to do so.

Outstanding guarantees of principal and interest on borrowings of others amounted to $5,203,000 at December 31, 1957, chiefly for service stations and, to a lesser extent, employee housing.

Tanker charter hire and other rentals payable by the companies under agreements expiring more than three years from December 31, 1957, approximate $2,600,000 annually.

Commitments of approximately $22,000,000 at December 31, 1957, are outstanding against programmed capital expenditures for 1958 and subsequent years.

While the companies are involved in litigation incident to the nature of their business, it is impossible to ascertain what, if any, payments will have to be made in respect of such litigation. However, any amounts which the companies may be called upon to pay and any assets, the title to which may be in question, as a result of current litigation, will not be materially important in relation to the total assets of the companies.

DEPRECIATION AND AMORTIZATION
CAPITAL COST ALLOWANCE
PROVISION FOR INCOME TAXES

The companies' policy with respect to depreciation and amortization of investment in plant and equipment is, in general, to make charges against income over the estimated service life of such assets by the application of either the unit-of-production or the straight-line method. The rates used for straight-line depreciation have been under review for some time and for 1957 have been revised to provide more equitable write-offs over the useful life of the assets; the revisions did not materially affect current earnings.

Provision for estimated income taxes charged in the Consolidated Statement of Earnings does not take into account additional depreciation deductible for income tax purposes under capital cost allowance regulations. The companies are claiming the maximum deductions allowable and as a result income taxes payable in respect of the year 1957 are estimated at $42,554,873 whereas $52,366,435 was charged to income. The difference of $9,811,562 in taxes is applicable to future periods when capital cost allowances deductible for tax purposes will be less than the depreciation recorded in the accounts and is accordingly included in the Consolidated Balance Sheet, together with similar amounts in respect of prior years, under the heading "Accumulated income tax reductions applicable to future years".

The Company's appeals against depletion and other disallowances contained in income tax assessments covering the year 1951 and certain subsequent years are expected to be heard before the Exchequer Court of Canada at an early date. The Company believes that adequate provisions have been made for all income taxes payable.

EMPLOYEES' ANNUITIES

The companies have two principal plans operating to provide life annuities for employees on retirement. One plan is insured with a Canadian life insurance company and the other is a trust administered to December 31, 1957 by the Imperial Oil Pension Fund Society and thereafter by a Board of Trustees for the "Imperial Oil Annuity Plan (1958)". The trusteed plan was revised in January 1958 to provide a supplement, where required, to bring the life annuities to a closer relationship to employees' earnings at time of retirement. This revision will result in additional obligations for employees' past service, and an actuarial valuation of the companies' full annuity obligations as of December 31, 1957 is being made.

CAPITAL STOCK

Issues of capital stock in 1957 totalled 12,765 shares for $445,004, all to employees under the Incentive Stock Option Plan. Since the inception of the Plan a total of 91,154 shares have been issued thereunder and options granted for 205,166 shares, at market prices on the dates of option, are outstanding at December 31, 1957.

SALARIES OF EXECUTIVE OFFICERS AND COUNSEL FEES

The total amount deducted in the Consolidated Statement of Earnings in respect of salaries and other remuneration paid to counsel, solicitors and executive officers, including all salaried directors, was $790,287 for 1957.

IMPERIAL OIL LIMITED AND SUBSIDIARY COMPANIES

FIVE-YEAR SUMMARY

	1957	1956	1955	1954	1953
OPERATING: (Barrels per day)					
Gross* crude oil production	110,000	119,000	108,000	97,000	90,000
Net* crude oil production	95,000	103,000	93,000	84,000	78,000
Crude oil processed at refineries	267,000	275,000	239,000	214,000	204,000
Canadian crude processed, as a percentage of total	60	64	67	69	57
Crude oil and product importations	126,000	121,000	108,000	88,000	121,000
Sales of products and processed crude	276,000	275,000	250,000	218,000	212,000
Number of regular employees at year-end	14,657	14,242	13,696	13,370	13,564
FINANCIAL:					
Gross income	$884,569,000	837,373,000	700,275,000	614,550,000	605,504,000
Expenses	$760,122,000	718,494,000	593,810,000	528,067,000	523,713,000
Income taxes on earnings	$ 52,366,000	49,781,000	44,321,000	36,900,000	33,807,000
Earnings after income taxes	$ 72,081,000	69,099,000	62,145,000	49,583,000	47,985,000
Per share	$ 2.29	2.20	2.08	1.66	1.60
Percentage of earnings to gross income	8.15	8.25	8.87	8.07	7.92
Dividends paid	$ 37,728,000	35,890,000	28,366,000	26,863,000	23,878,000
Per share	$ 1.20	1.20	.95	.90	.80
Current funds and inventories	$322,675,000	365,674,000	299,309,000	225,460,000	234,119,000
Current debts	$ 90,790,000	111,183,000	91,697,000	67,682,000	67,951,000
Net current working funds and inventories	$231,885,000	254,491,000	207,612,000	157,778,000	166,168,000
Ratio of current funds and inventories to current debts	3.6	3.3	3.3	3.3	3.4
Property, plant and equipment less accumulated depreciation and amortization	$488,991,000	429,525,000	372,520,000	331,924,000	291,905,000
Capitalized expenditures for property, plant and equipment	$103,063,000	97,951,000	80,074,000	74,236,000	67,852,000
Long-term debt	$ 90,776,000	94,170,000	96,628,000	48,986,000	50,919,000
Number of shares issued and outstanding	31,443,000	31,430,000	29,866,000	29,851,000	29,847,000
Number of shareholders	44,544	43,823	43,614	44,734	46,796
Shareholders' investment (book value)	$599,602,000	564,804,000	463,865,000	429,127,000	395,779,000
Per share	$ 19.07	17.97	15.53	14.37	13.26

*Gross Production includes, and Net Production excludes, royalties and oil payments due others on Company's share of production.

SAMPSON-MATTHEWS LIMITED, TORONTO

IMPERIAL
Esso
PRODUCTS